



The ASEAN Economic Community and the Philippine Economy: Gearing Up Philippine Business



Trade-Related Assistance for
Development (TRADE) Project

AEC 2015: The Four Pillars



SINGLE MARKET & PRODUCTION BASE

Free flow of
goods

Free flow of
(professional)
services

Freer flow of
skilled labor

Free flow of
investment

Freer
movement of
capital

COMPETITIVE ECONOMIC REGION

Competition
policy

Consumer
protection

Intellectual
property rights

Infrastructure
development

Taxation

E-commerce

EQUITABLE ECONOMIC DEVELOPMENT

SME
development

Initiative for
ASEAN
integration (IAI):
Assistance to
less-developed
member states

INTEGRATION INTO GLOBAL ECONOMY

Coherent
approach
toward
external
economic
relations

Enhanced
participation in
global value
chains

AEC & Philippine Economy: Six Key Observations



1. PH is now strongly positioned for AEC.
2. AEC is not just “coming in 2016”; it is here!
3. AEC is more about complementation, less of competition.
4. Overall benefits of AEC outweigh the costs.
5. AEC is pushing us to do the right things.
6. There’s still much homework to do.



**1. The Philippines is now in
a strong position for AEC.**

The economy is in a “break-out” mode.

Where Are We Now?

“PiTiK Test” on the Economy



The Essential Yardsticks (P-T-K):



Price Stability (*Presyo*)



Jobs (*Trabaho*)



Incomes (*Kita*)

The Economy In 2014

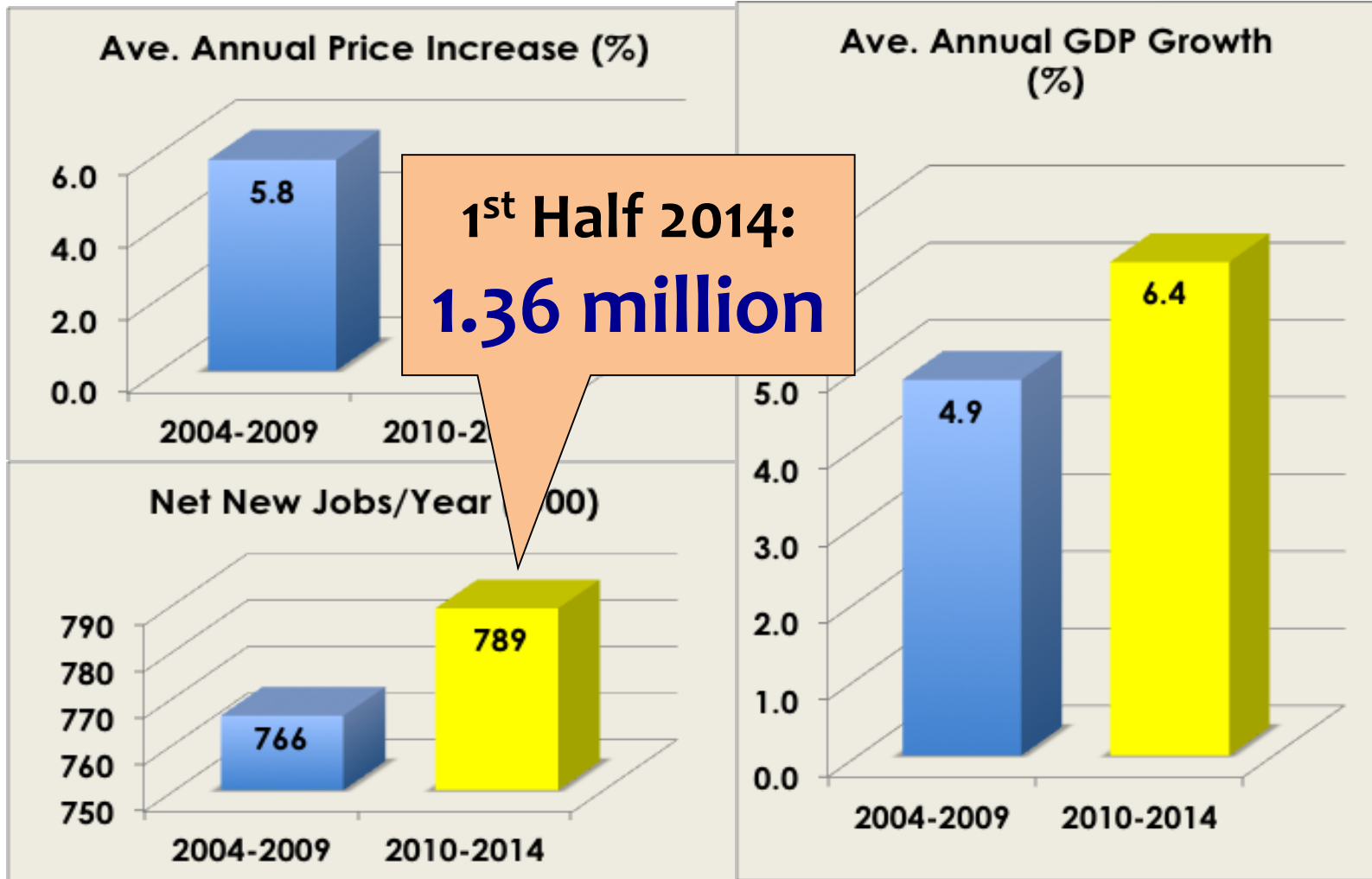
Good News on All 3 Counts



- **Prices:** Inflation is within government target of 4-5% (Oct 2014: 4.3%)
- **Jobs:** Unemployment rate falls to 6.7% (July 2014); 1.36M net new jobs created
- **Incomes/Output:** Q2 growth of 6.4% among fastest in SE Asia and Asia

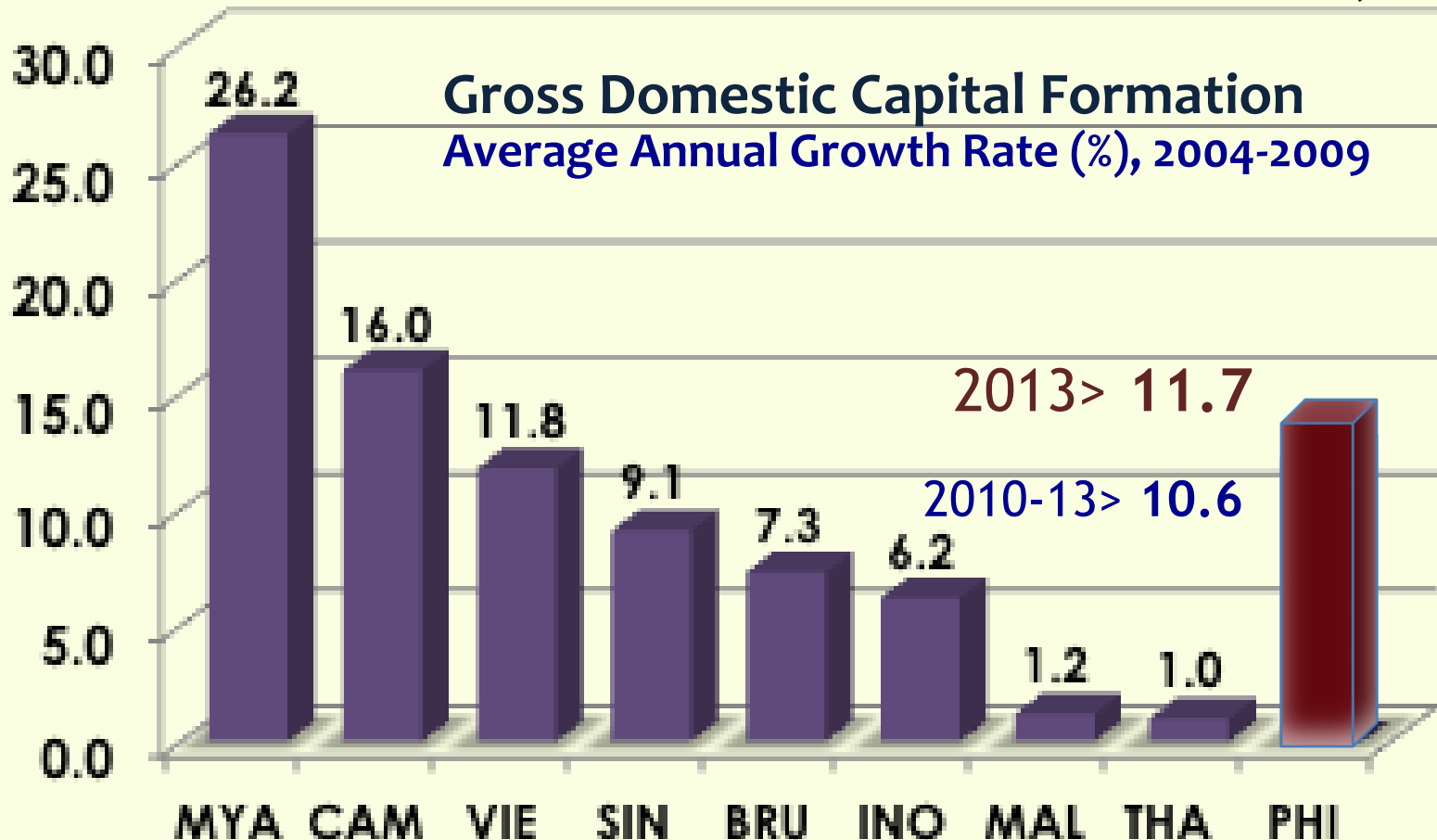
Signs of a Breakout

Then (2004-2009) & Now (2010-14)



Annual Investment Growth We Have Bounced Back

Source: ADB, PSA



2. AEC is not just “coming in 2016”; it’s mostly already here!

No “tsunami” of ASEAN goods will
happen in 2016.



Where is AEC Now?



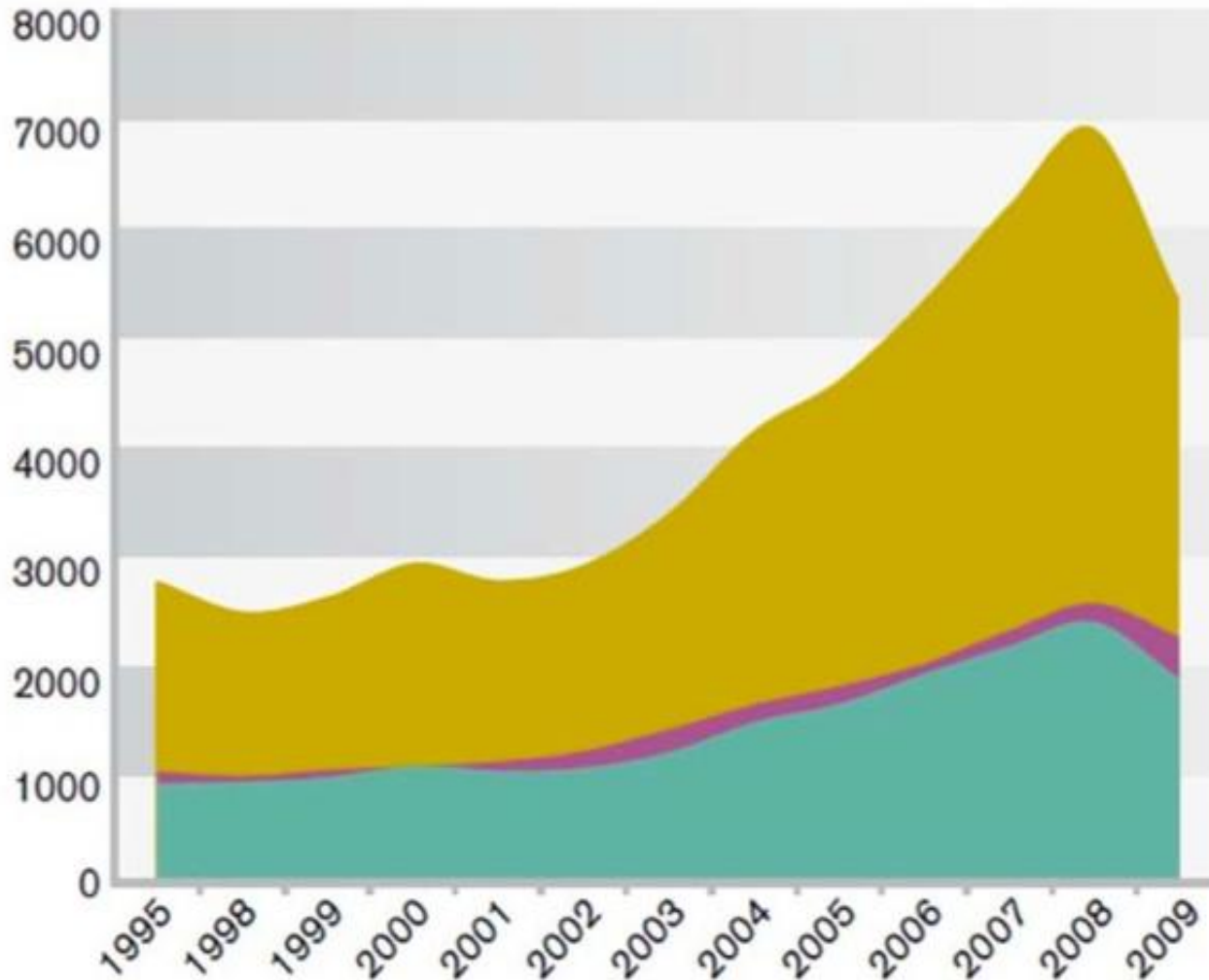
- 99.6% of all tariff lines were already brought down to zero since 2010
- Of 400+ agreed AEC Blueprint commitments, ASEAN members have complied with 84-89% (PH: 87+%) (ASEAN Secretariat's Scorecard)
- December 31, 2015 is not 'doomsday', but a merely a target for 100% compliance
- No drastic changes will happen on January 1, 2016 (as with fabled Y2K bug!)

3. More complementation, less of competition

More trade in products within the same industries (intra-industry trade)



The Changing Shape of Global Trade



Dramatic growth of trade in intermediate goods, with the development of cross-border value chains

- Intermediate goods
- Consumption goods
- Capital goods

Source:
Sherry Stephenson (2013)

Changing Trade Patterns

Before (1995):
Goods with almost 100% domestic content

Value chains cross national boundaries:
Boeing jets,
iPhones/iPads are
“Made in the World”
(not ‘Made in USA’ or
‘Made in China’)

Now (2005):

1. Goods with lower domestic content



2. More intra-regional trade within Asia especially South East Asia



Philippine Trade with ASEAN Partners



■ With Thailand

Top imports: Motor vehicles, electronics, petroleum and chemicals

Top exports: Motor vehicle parts, electronics & electricals, and minerals

■ With Singapore

Top imports: Electronics, machinery and petroleum

Top exports: Electronics & electricals, machinery, and petroleum

■ With Malaysia

Top imports: Electronics, petroleum and chemicals

Top exports: Electronics, coconut oil, petroleum

Trade in ASEAN/AEC

Features



- Largely *intra-industry* in nature (trade in products within the same industries, e.g. electronics, vehicles, chemicals)
- Trade relationships are increasingly complementary rather than competitive; ***trade protection can be self-penalizing***
- Opportunities lie in regional and global production networks or value chains



4. Overall benefits of integration outweigh the costs.

Economies of scale, lower costs and stronger cohesion

AEC Upsides and Downsides



Upsides

- Economies of scale → Lower unit costs
- Technology sharing → Greater efficiency (e.g., Manila Catering) → Lower costs & prices for all
- Higher productivity → Higher incomes
- Stronger interdependence → Greater regional cohesion, harmony and peace

Downsides

- Vulnerability to supply chain disruptions
- Differential gains/benefits; inequitable growth



5. AEC 2015 is pushing us to (finally) do the right things.

Political will is induced by the group's collective commitment

“Right Things” We Are Being (or Have Been) Led to Do



- **Bring Down Trade & Investment Barriers** → Builds inherent competitiveness, widens scope for growth, and increased competition makes all consumers better off
- **Open Our Skies** → Fosters tourism jobs & earnings (strong inter-industry linkages & multiplier effects)
- **Improve Trade Facilitation** → Reduces business costs; improve competitiveness for PH businesses
- **Adopt Strong Competition Policy** → Diffuses market power and monopolistic/oligopolistic behavior, levels the field for SMEs, and achieves more inclusive growth



6. We need to do the homework.

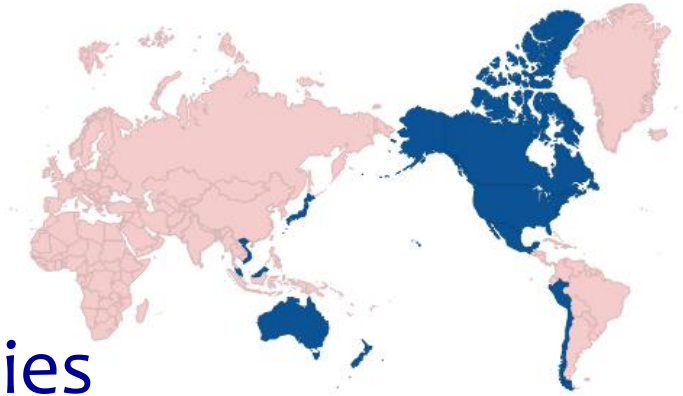
Business & government have work to do for successful AEC engagement.

Doing Our Homework



- Policy & Institutional reforms
 - Ease outdated investment restrictions
 - Enact Competition Law, CMTA, other bills
 - Address non-tariff barriers
 - Adopt world-class trade facilitation measures
 - Reform/restructure trade & other relevant government institutions (e.g., PTRO/DTI, DOTC/DPWH, DICT)
 - Strengthen industry associations & clusters

Doing Our Homework



■ Public Investments

- Fix infrastructure inadequacies
 - Energy, Transport, ICT
- **Strengthen education & HRD; closer industry-academe linkages to avoid skills mismatch**
- Capacity building for trade bureaucracy (trade policy analysis and negotiation)
- Support for SMEs (Access to Finance, Technology, Raw Materials, Markets)



Iloilo City

Prospects & Potentials

Current Drivers

- Tourism
- IT/BPO
- Real Estate Devt
- Construction
- Transport & Logistics
- Energy & Power

Potential Drivers

- Manufacturing (Agri)
- Shipbuilding & Repair
- Education/Knowledge
- Med/Wellness Tourism
- Retirement Estates
- Banking & Finance
- Green Industries & Architecture
- Packaging

Issues in Moving Forward

Iloilo City

- **Investment conservatism (“frugality”?) of Ilongos** – Changing with the influx of external investors (?); HEIs to provide training on financial investment e.g., in equity markets
- **Higher real estate cost** (vs. Bacolod) – A traditional disadvantage
- **Inadequate skills** (technical and “soft”) of college graduates – Need closer coordination between academe and industry

Human Resources

PH is Well-Positioned



- Strengths: Industrial peace; abundant young, trainable, English-speaking workers
- Employers feel more threatened than workers
- More opportunities for skilled workers (metal work, tool & die, auto & motorcycle parts, furniture, chemical, rubber, plastic, iron & steel)
- National laws/restrictions will still prevail
- As labor surplus country, PH stands more to gain than lose



Toward AEC-Enabled SMEs

SMEs Must Gear Up & Change Their Ways



- Strengthen & professionalize financial and overall business management
- Study AEC opportunities & requisites for availment (e.g., attend DBFTA forums)
- Shun “*kanya-kanya*” attitude; embrace clustering & “coopetition”; **cooperatives are key to making this happen**

Toward AEC-Enabled SMEs

PH AEC Game Plan



- Clustering Initiatives & Shared Service Facilities (DTI)
- Industry Road Maps (BOI)
- Doing Business in FTAs Forums (DTI)
- Inclusive Finance Program (BSP)
- Competition Law (Congress)
- Halal Industry Support (Bangsamoro, DTI)
- Trade Facilitation for SMEs (Customs) ++

Business Prospects

Wider Options/Opportunities



- Weigh expansion opportunities vs. new threats from wider competition; leverage expanded consumer base (**Pacific Traders & Mfg, SME Food Producers**)
- Enhance efficiency via supply chain design & strategic location of various business functions
- Attract and deploy skilled labor strategically for maximum productivity
- Tap wider financing options from integrated regional capital markets

The Right Way Forward



- Find strategic positioning in cross-border value chains/production networks (**Moog Inc.**)
- Shift business model to inclusive value chains (**a la Jolibee, Nestle**) vs. vertical integration, as deliberate contribution to inclusive growth
- Team up (e.g. into coops), cluster and unite to gain larger market opportunities
- Pursue the triple bottom line of **People, Planet and Profit** to help make **Inclusive Growth & Sustainable Development** a reality

Wanted: A Change in Mindset



From *fearing threats*

to seizing opportunities

From *creating ghosts*

to finding gold mines